GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:175
ANSWERED ON:09.03.2007
IRREGULARITIES IN ALLOTMENT OF SHARES
Patel Shri Jivabhai Ambalal;Rana Shri Kashi Ram

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has received any complaints regarding irregularities/scam in allotment of shares during the recent past;

(b) if so, the details thereof;

(c) the action taken by the Government in this regard; and

(d) the steps taken by the Government to safeguard the interests of the shareholders?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P.CHIDAMBARAM)

(a) to (d): A statement is laid on the Table of the House.

Statement referred to in reply to parts (a) to (d) of Lok Sabha Starred Question No. 175 regarding "Irregularities in Allotment of Shares" raised by SHRI JIVABHAI AMBALAL PATEL and SHRI KASHIRAM RANA for answer on 9th March, 2007

(a) and (b): Subsequent to the issue of interim orders dated December 15, 2005 and January 12, 2006 by SEBI in respect of Yes Bank and IDFC IPOs, SEBI had received complaints alleging irregularities in allotment of shares in various IPOs made during the year 2005. The enquiries and investigations made by RBI and SEBI indicate that a few entities opened thousands of demat accounts with Depository Participants (DPs) and bank accounts with Banks in the names of fictitious/ benami individuals. They applied for shares in IPOs from these benami/ fictitious accounts in sizes permissible for retail individual investors (RIIs) and obtained allotment. As a result, the genuine RIIs failed to get allotment or got allotment of fewer shares than they would have otherwise got.

(c) and (d): Government has advised SEBI to reallocate the shares from the persons who did not deserve to be allocated the shares to the persons who should have been allocated the shares. The Budget for 2007-08 has proposed to make PAN the sole identification number for all participants in the securities market. Besides, SEBI and RBI have taken several measures to prevent recurrence of such IPO irregularities and safeguard the interests of the investors in securities market. The measures taken by SEBI include the following:

SEBI has issued interim directions prohibiting all the entities found involved from dealing in securities market;
SEBI has issued a circular directing the depositories to activate the ISINs only on the date of commencement of trading on the stock exchanges;
The depositories have put in place a system including the necessary software to identify multiple accounts;
The depositories have set up surveillance cell to monitor abnormal transactions in the demat system and report their findings in this regard to SEBI;
SEBI has initiated quasi-judicial proceedings including enquiry and adjudication against the entities found involved;
SEBI has launched prosecution proceedings against the entities found involved with a high degree of culpability; and
SEBI has issued directions to disgorge the ill-gotten gains.

The measures taken by RBI include:
Penalties ranging between Rs 5 lakh to Rs. 30 lakh have been levied on 10 banks under the Banking Regulations Act, 1949 for their acts of omission and commission.
Various internal controls failures observed in the 10 banks involved in the IPO irregularity have been taken up with them for corrective action and also circulated among all other commercial banks to sensitise them on the issue.
All banks have been advised on January 5, 2006 to take a review of their IPO portfolio and put up a report in this regard to their audit committee. All banks have reported completion of action in this regard.
Banks have been impressed upon to revisit their internal control systems, processes and procedures and take corrective action wherever required and place a report in this regard before the Audit Committee of the Board. Action has been completed by all banks in this regard.
A directive has been issued on January 23, 2006, prohibiting the banks from crediting `account payee` cheques to account of any person other than the payee named therein.